

Digest of Mailroom Issues

We have completed our review of issues involving state mailrooms. First, we found that the Multi-line Optical Character Reader (MLOCR) was purchased without an adequate needs analysis. Second, we found that information pertaining to mail delegation agreements for the Department of Human Services(DHS) and the Tax Commission was inconclusive. Third, we found that production mail is most efficiently bar coded by computer, a fact that may make the delegation question moot. Finally, we found that issues surrounding the proposed intelligent inserter purchase need to be more carefully considered.

In our opinion, Central Mail did not perform a thorough needs analysis before the MLOCR was purchased. The MLOCR is a machine that reads an address and places a bar code on the mailpiece. By doing this, a postal discount is received because the zipcode is contained in the bar code and the bar code allows for machine processing by the post office. Because a thorough needs analysis was not done, two key assumptions made by Central Mail have not materialized. The first assumption was a projected high mail volume for the MLOCR and the second was the MLOCR's ability to process state mail (machine readability). Consequently, the MLOCR is not providing the state with the benefit expected.

Because the MLOCR was purchased, there has been a very strong interest to increase the volume of mail the machine is processing. As a result, there has been a strong interest in delegation agreements and centralizing all mail within Central Mail. Unfortunately, the cost information necessary to make a decision regarding delegation agreements involving DHS and the Tax Commission is inconclusive. In order to obtain a conclusive answer, Central Mail must clearly identify its rates for production mail (computer generated mail) which is the bulk of DHS's and the Tax Commission's mail. In addition to cost considerations, service delivery considerations must also be made. Specifically, DHS has concerns with timeliness of outgoing mail if Central Mail performs the outgoing mail function for them.

While the question of delegation agreements cannot be answered without more information, in our opinion the question is being asked too late. Now there is a new factor to consider that will allow production mail to receive the bar code postal discount without using the MLOCR and, as a result, may make the issue of delegation agreements, particularly for DHS, a moot point.

According to a mail expert, production mail is most efficiently bar coded using a computer. Production mail accounts for approximately 80 percent of DHS's 4 million pieces of mail. State Information Technology Services (ITS) has purchased the necessary printer font and software to enable ITS to bar code and sort production mail running off the state's laser printer which DHS's mail does. Further, ITS estimates that it will cost .3 cents to bar code a mailpiece. While Central

Mail has not yet done a thorough analysis of what it would cost the MLOCR to bar code one piece of production mail, the cheapest production rate they have negotiated to date is 1.7 cents per piece. Based on these data, it seems unlikely that the MLOCR can bar code a piece of production mail more cheaply than the laser printer at ITS. Consequently, it appears that production mail should be bar coded by computer. If DHS's mail does not go through Central Mail, then Central Mail is going to have to consider other uses for the MLOCR.

As has been demonstrated, problems can occur when a needs analysis is not performed to determine if a purchase is really necessary. The Department of Administrative Services staff need to ensure that similar problems do not occur with the proposed intelligent inserter. An intelligent inserter is needed when mailpieces in the same mailing are receiving different inserts. For example, one mailpiece is receiving a bill while another receives a bill and a delinquency notice. Since an intelligent inserter is a sophisticated piece of equipment, one can cost between \$150,000 and \$250,000.

To date, statewide needs analysis has been insufficient and does not justify the purchase of an intelligent inserter. While inserting data has been collected, data specific to the question of the need for an intelligent inserter has not been collected. The Tax Commission has done an analysis of intelligent inserter needs but we have concerns with their analysis. In our opinion, an adequate statewide needs analysis should be performed on the intelligent inserter to determine if this purchase would, in fact, be a benefit to the state.